

ALLTEL South Carolina, Inc.
Request for Additional Funding
From the South Carolina Universal Service Fund
Docket No. 97-239-C

OVERVIEW OF ALLTEL's REQUEST

Pursuant to Order No. 2001-419 ("USF Order") adopted by the South Carolina Public Service Commission ("Commission") in Docket No. 97-239-C on June 6, 2001, ALLTEL South Carolina, Inc. ("ALLTEL") makes the instant filing in order to receive additional funding from the State Universal Service Fund ("USF").

ALLTEL currently receives intrastate USF support in accordance with the reductions made to its intrastate switched access rates per the USF Order and consistent with the first step of the "Initial Phase" of the state USF as provided for in the South Carolina Universal Service Fund Administrative Procedures. In the USF Order, the Commission found intrastate switched access rates were priced above cost and contained significant implicit support for basic local services. Further, since access service is susceptible to bypass and competitive erosion, the Commission found it necessary to remove implicit subsidies from intrastate switched access rates and make such support explicit, thereby, insuring the continuation of affordable basic local service.

In addition to the implicit support included in intrastate switched access rates, the Commission recognized that other rates assessed by the incumbent local exchange carrier may contain implicit support. Accordingly, the USF Order found that any local exchange carrier may receive funding beyond the first step of the "Initial Phase" so long as the LEC can demonstrate that implicit support exists in the tariffed rates it proposes to decrease. The USF Administrative Procedures describes any USF funding requested beyond what the Commission ordered in the first step of the Initial Phase as the second step of the Initial Phase provided that the requested funding, when combined with the funding the ILEC is currently receiving does not exceed 33% of the total state USF approved for ALLTEL by the Commission.

Through this filing, ALLTEL proposes to reduce its rates for intrastate special access services, thereby removing implicit support included in those rates, and requests additional USF funding to replace the implicit subsidy. ALLTEL intrastate special access rates are currently tariffed in Section 17 of ALLTEL's Intrastate Access Tariff. ALLTEL has attached the revised tariff pages, reducing rates to remove implicit support contained in those rates, as Exhibit A. The proposed rate reductions will become effective upon the Commission's approval of ALLTEL's request for additional USF funding. If the request for additional USF funding is not approved or approved as filed then the company reserves the right to withdraw the tariff

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filing. If ALLTEL's proposal is approved ALLTEL will receive \$737,019.42 in additional State USF Funding annually.

The USF Administrative Procedures do not prescribe a specific cost methodology to be used to demonstrate the existence of implicit support. Therefore, ALLTEL intends to utilize the cost study it filed with the FCC, for determining the revenue requirement for interstate special access services, as a proxy. Although, interstate costs may not be identical to that on the intrastate side, ALLTEL submits the proposed study can be reasonably utilized to establish a "price floor" for intrastate special access rates and provide clear evidence that the current intrastate special access rates are priced significantly above cost. Therefore, it can be reasoned that as long as ALLTEL's proposed intrastate special access rates are above its interstate special access rates the proposed rates are above ALLTEL's cost of providing such a service. A comparison of ALLTEL's current interstate special access rates to its current intrastate special access rates will also illustrate that ALLTEL's current intrastate special access rates are priced significantly above cost. Further ALLTEL submits the proposed cost study utilizes 2002 data and is compliant with the FCC's requirements. ALLTEL's proposed cost study is attached herein as Exhibit B.

Finally, ALLTEL submits that the additional funding requested through this filing, when combined with the funding it is currently receiving in accordance with the first step of the Initial Phase and the low income component, does not exceed 33% of the total state USF support for which ALLTEL is eligible. The relevant worksheets per the USF Administrative Procedures are attached herein as Exhibit C. The worksheets clearly establish the total monthly State High Cost Support for which ALLTEL is eligible in 2003 and that the additional funding requested by ALLTEL, when combined with the current funding it receives from the State USF, does not exceed 33% of the State USF support for which ALLTEL is eligible.